Supreme Court Allows Damages for Foreign Lost Profits in Patent Infringement Case

By David Gorski / Jun 25, 2018

As a general rule, patents are instruments providing government sanctioned monopolies that are territorially bound to the issuing government. On June 22, 2018, the U.S. Supreme Court held that damages could be recovered in an instance of a foreign use of a system that infringed on a U.S. patent.

In its decision in WesternGeco LLC v. Ion Geophysical Corp,[1] the Supreme Court addressed the use of a patented system that was largely manufactured and later exported from the United States and operated outside the United States to the detriment of a U.S. patent owner. Ion Geophysical Corp. (Ion) manufactured components for an ocean floor survey system within the United States and then exported the components to companies abroad. Once abroad, the components were assembled into a system that was indistinguishable from a system patented by WesternGeco LLC.[2]

U.S. patent law states, in part, that it is infringing to, without authority, export 1) all or a significant number of components of a claimed invention to actively induce the combining of those components outside of the United States in a manner that would infringe if the combination had taken place within the United States[3] or 2) specially made or adapted components knowing that such component is made or adapted and intending that such component will be combined outside of the United States and would infringe if the combination had taken place within the United States.[4]

WesternGeco proved that, due to the use of Ion's system abroad, it had lost 10 specific foreign survey contracts, and Ion was found liable. Damages of $12.5 million in royalties and $93.4 million in lost profits were awarded to WesternGeco by the District Court. The award of damages for lost profits was reversed by the Court of Appeals for the Federal Circuit due to the foreign nature of the profits.[5] In reversing the Court of Appeals, the Supreme Court cited its own opinion in RJR Nabisco, Inc. v. European Community,[6] stating that "'[i]f the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application' of the statute 'even if other conduct occurred abroad.'"[7] The Supreme Court concluded here that "the conduct relevant to the statutory focus in this case is domestic."[8] Specifically, the action of supplying the infringing components in or from the United States is domestic and regulated by 35 U.S. 271(f)(2).[9] Domestic infringing acts are subject to damages, which may be applied under 35 U.S. §284.[10] Further, under §284, "damages are 'adequate' to compensate for infringement when they 'place[e] [the patent owner] in as good a position as he would have been in' if the patent had not been infringed."[11]

Key Take Aways

Use of an invention abroad where one or more infringing components is exported from the United States will not avoid foreign lost profit damage awards in a U.S. federal court.
Business owners should be wary of potential infringement of U.S. patents, even when the use of an invention takes place outside of the United States when components originate in or pass through the United States.
The Supreme Court has emphasized that U.S. legal provisions do not stop at the border when it comes to making the patent owner whole as if the infringement had not occurred.

[1] WesternGeco LLC v. Ion Geophysical Corp., 558 U.S. ____ (2018).

[2] *Id.* at 2-3.

[3] 35 U.S.C. §271(f)(1).

[4] 35 U.S.C. §271(f)(2).

[5] WesternGeco LLC v. Ion Geophysical Corp., 791 F.3d 1340,1343 (2015).

[6] RJR Nabisco, Inc. v European Community, 579 U.S. ____ (2016).

[7] 558 U.S. ____ at 6 (2018).

[8] *Id.*

[9] *Id.* at 7.

[10] *Id.* at 8.

[11] *Id.* at 9 (citing General Motors Corp. v. Devex Corp., 461 U.S. 648, 655 (1983)).

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